(a) the names of banks found to be involved in the Initial Public Offering (IPO) scam;

(b) the action taken against the banks found guilty in the above scam;

(c) whether it is a fact that all system including that of SEBI have failed to free share markets from every kind of irregularity;

(d) if so, the additional steps Government are going to take to avoid the above said irregularity; and

(e) if not, the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) The Reserve Bank of India (RBI), in exercise of powers vested in it under the provision of section 47 (A) (1) (b) of the Banking Regulation Act, 1949 has imposed monetary penalties on Bharat Overseas Bank, Indian Overseas Bank, Vijaya Bank, HDFC bank, ICICI Bank Ltd., Citibank & Standard Chartered Bank found guilty of violating RBI guidelines and for misusing the IPO process in the first round of investigations.

(c) to (e) No, Sir. The irregularities detected by SEBI/RBI are not due to systemic failure, but have been due to non-adherence of various guidelines by the intermediaries involved. However, SEBI has issued appropriate directions to the depositories *i.e.* National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to prevent such irregularities. RBI has also advised banks to undertake an internal review of IPO funding system and to examine the relative systems and controls in place and take immediate corrective actions. RBI has also undertaken a comprehensive scrutiny of the process of internal control of the banks involved for taking required corrective action in the matter.

IPO scam

232. SHRI RAJKUMAR DHOOT: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that Government have unearthed IPO scam with fictitious demat accounts;

(b) if so, the details thereof;

(c) the action taken against the offenders; and

(d) the steps taken to ensure that there is no recurrence of such scam?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) Securities and Exchange Board of India (SEBI) has noticed certain irregularities in the issue of Initial Public Offering (IPO) shares in the recent past while examining the dealings in shares relating to the IPOs of the Yes Bank Ltd. and Infrastructure Development Finance Company Ltd. (IDFC). The enquiries and investigations made so far by Reserve Bank of India (RBI) and SEBI seem to indicate that a few entities opened thousands of demat accounts with Depository Participants (DPs) and bank accounts with Banks in the names of fictitious/benami individuals. They applied for shares in IPOs from these benami/fictitious accounts in sizes permissible for retail individual investors (RIIs) and obtained allotment. As a result, some genuine RIIs failed to get allotment or got allotment of fewer shares than they would have otherwise got.

(c) and (d) The penal actions taken by SEBI include: debarring concerned entities from dealing in securities market/dealing in IPO; directing the concerned DPs not to open fresh demat accounts till further directions; directing the Depositories to enhance their surveillance system, and ordering inspection of the concerned Registrar to Issue and the Merchant Bankers. In order to prevent recurrence of the irregularities, the measures taken by SEBI include: directing the Depositories to advise their respective DPs to verify the genuineness of the demat account-holders where 20 or more demat account-holders have a common address; advising them to identify all the other IPOs during 2004 and 2005 wherein the same *modus operandi* could have been adopted by the identified entities; directing them to form a co-ordination committee to co-ordinate with the surveillance department of SEBI for monitoring abnormal transactions in demat accounts; and advising them that in case of IPOs they should activate the Indian Securities Numbering System only on the date of commencement of trading on the stock exchanges.

The penal actions taken by RBI include imposition of penalties ranging from Rs. 5 lakh to Rs. 20 lakh against 7 Banks taking into account the extent and enormity of the violation of the RBI guidelines. Other measures include: advising all scheduled commercial banks, excluding

RRBs, to conduct a review of IPO financing and related matters, like opening of multiple accounts, adherence to Know Your Client (KYC)/ Anti-Money Laundering (AML) guidelines and RBI instructions on IPO financing, advances against shares, etc.; prohibiting the Banks from crediting account payee cheques to account of any person other than the payee named therein; and taking up an examination of the internal control systems and processes in the banks to assess the areas of weakness with regard to KYC, IPO finance, advances against shares and internal controls etc.

Implementation of social sector projects

233. SHRI S.S. AHLUWALIA: Will the Minister of FINANCE be pleased to state:

(a) whether as indicated by Hon'ble Prime Minister during Press Conference on 1st February, 2006 in Delhi, financial resources with the States have witnessed substantial improvement since the recent past;

(b) if so, the State-wise details of the salient features of their finances reflecting improvements *vis-a-vis* those prevailed in 2003-04, 2004-05 and 2005-06 (upto 31st December, 2005);

(c) the State-wise implementation status of social sector projects that are partially funded by Central Government, indicating positive or negative status over the past years in the respective States; and

(d) the steps contemplated, if any, for ensuring positive status for social sector projects in these States where performances are negative?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) The aggregate treasury holdings of the States have shown improvement from Rs. 6855.79 crore (31.03.2004) to Rs. 18773.01 crore (31.03.2005) and further to Rs. 33929.25 crore (up to 31.12.2005). This is beyond the stipulated minimum balances required to be maintained as per the agreement entered into between the States and Reserve Bank of India.

(b) The consolidated position of the State Finances has witnessed fiscal correction in terms of State's Fiscal and Revenue accounts as per cent of GSDP. State-wise comparative statement on fiscal indicators is enclosed (*See* below).